



**SF 2017** – Veterans Retirement Pay Income Tax Exemption (LSB 5141XS)  
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 Fiscal Note Version – New

**Description**

**Senate File 2017** provides a State individual income tax exclusion for military service retirement benefits. The exclusion is in addition to the current pension exclusion available to all taxpayers with pension income. The Bill is retroactive to January 1, 2010, and applies to tax years beginning on or after that date.

**Assumptions**

- There are 12,500 military retirees in Iowa receiving military retirement benefits and that number is assumed to remain constant in future years.
- The taxable military retirement income of those 12,500 taxpayers is estimated to be \$250.0 million per year and is assumed to grow at an annual rate between 5.3% and 10.2%.
- The assumed marginal tax rate for retired military personnel is assumed to be between 4.7% and 4.9%.
- The statewide average local option income tax surcharge for schools tax rate is 3.0% of State income tax liability.

**Fiscal Impact**

The income tax exclusion contained in this Bill is projected to reduce net General Fund revenue by the following amounts:

(Dollars in millions)	
	Fiscal Year GF Revenue Reduction
FY 2010	\$ 2.5
FY 2011	\$ 15.6
FY 2012	\$ 14.3
FY 2013	\$ 15.4
FY 2014	\$ 16.3

The income tax exclusion will reduce State income tax liability and will therefore reduce revenue raised by the local option income surtax for schools. The reduction is projected to equal \$489,000 per year by FY 2014.

**Sources**

Department of Revenue

/s/ Holly M. Lyons

February 16, 2010